Latin America and the Caribbean

The two Summits of the Americas—in Miami in 1994, and this year in Santiago—underscore the remarkable transformation occurring in the hemisphere. The movement toward democracy, economic reform and trade liberalization have been the hallmark of Latin America and the Caribbean in the nineties. These changes have stimulated the region's economic growth and opened new opportunities for U.S. business. They have made Latin America and the Caribbean a new focal point for U.S. companies, with this region now accounting for 20 percent of total U.S. exports in 1997 and 40 percent of U.S. export growth.[1] U.S. market share in the region grew over the period 1993-1997, while the share of our European and Japanese competitors shrank. While Latin America and the Caribbean are not immune to fluctuations in global markets, their long-term efforts to lower trade barriers and introduce competition should continue to help them through difficult times and to make them attractive markets for U.S. goods and services.

Source: U.S. Department of Commerce. *1998 based on annuualized first half-year data.

Mexico's recovery from the 1995 peso currency crisis brought about a corresponding recovery of U.S. exports. In 1997, record U.S. exports to Mexico of $71 billion surpassed the pre-NAFTA peak by $15 billion. This rapid growth of U.S. exports, coupled with slower import growth, led to a 17 percent improvement in the U.S. trade balance with Mexico over the previous year.

Beyond Mexico and NAFTA, privatization, deregulation, and market-opening throughout Latin America and the Caribbean have created a powerful new demand for U.S. goods and services. U.S. companies have been quick to pursue leads in cellular telecommunications; electric utility privatizations; gas pipeline distribution projects; and highway, railroad and environmental concessions. By capitalizing on such opportunities, U.S. exports to Latin America and the Caribbean have increased 150 percent from 1990 to 1997.

A major factor shaping trade and investment flows in the region is the growth of a network of sub-regional free trade agreements. More than 30 free trade accords have been signed since 1990. As a result, intra-regional trade has risen from 47 percent of

[1] *These figures include Mexico.*

total Latin American and Caribbean exports in 1990 to 54 percent in 1996. One of the most important of these free trade pacts is MERCOSUR (Mercado Común del Sur, or Southern Common Market) which includes Argentina, Brazil, Uruguay, and Paraguay. Trade among the MERCOSUR countries has quad-rupled from $4 billion in 1990 to over $17 billion in 1996.

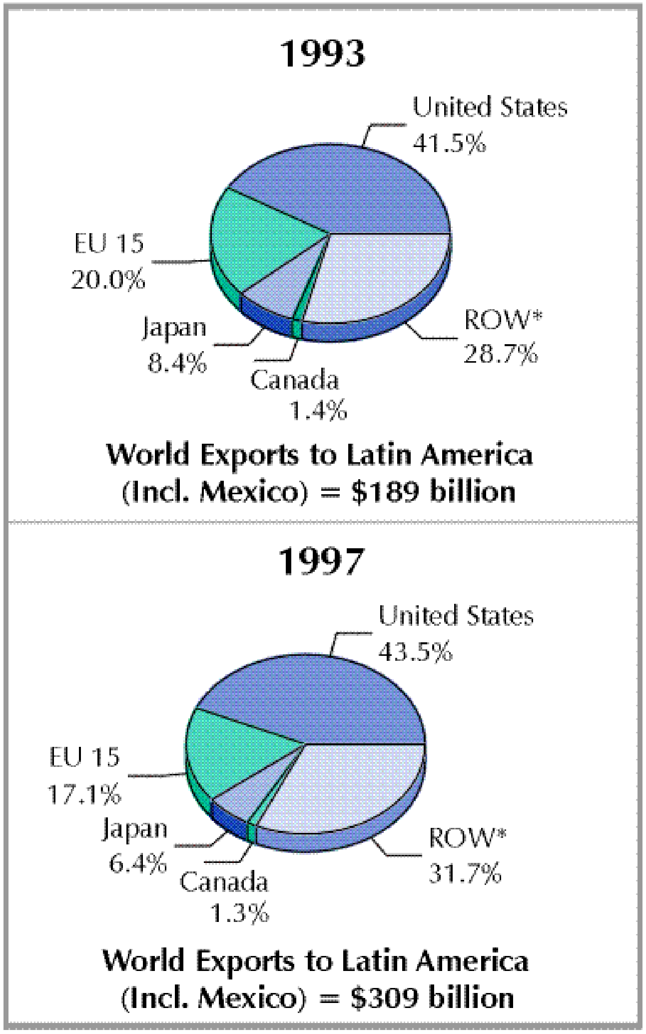
U.S. exports to the MERCOSUR subregion have grown steadily during the last five years, totaling $23.2 billion in 1997. And U.S. exporters have expanded the breadth of products and services they are successfully marketing, securing niches and market share throughout the subregion.

Free Trade Area of the Americas (FTAA)

At the Santiago Summit of the Americas in April, 1998, the 34 democratically elected leaders in the Western Hemisphere formally launched negotiations for a Free Trade Area of the Americas (FTAA). The negotiations are organized into nine negotiating groups: market access; investment; services; government procurement; dispute settlement; agriculture; intellectual property rights; competition policy; and subsidies, antidumping and countervailing duties. The FTAA will make it simpler to do business in our hemisphere.

For the first time in any trade negotiation, a *Committee on Civil Society* will provide a formal mechanism for labor, business, consumers, environment, and other sectors to provide their views to trade ministers. From the outset, these talks will take into consideration the interests of U.S. exporters and other groups, and will aim to ensure that the benefits from liberalized trade are broadly shared.

Market Share in Latin America



Source: IMF Direction of Trade * ROW = Rest of World

Strategic Advantages of an FTAA

An FTAA is critical to the United States for a number of reasons.

- ***Integration in the region and with our major competitors will otherwise proceed without us.*** The MERCOSUR signatories intend to negotiate a free trade agreement with the Andean Community countries and Central America. Canada has approached MERCOSUR about a free trade agreement, and the EU, which already surpasses the United States in sales to MERCOSUR, is seeking a mandate from member states to begin trade negotiations. Chile has announced plans to conclude a free trade agreement with Peru. Without an FTAA to equalize or enhance market access for U.S. companies, these agreements will put the United States at a competitive disadvantage.

- ***Reforms in the region need to be locked in.*** To the extent that U.S. firms benefit from unilateral Latin American and Caribbean reforms, their gains are at risk if "reform fatigue" were to lead to retrenchment in current trade and investment liberalizing trends. The peso crisis demonstrated the usefulness of NAFTA commitments in keeping Mexico's market open and its economic policies on course, to the benefit of both of our nations. By way of comparison, in response to the Asian crisis, MERCOSUR recently raised its common external tariff by three percentage points.

- ***U.S. industry still faces significant tariffs in the region.*** Regarding tariff rates, the United States has much to gain and little to lose under an FTAA. The average U.S. duty paid on imports from Latin American and Caribbean countries last year was a low 2.3 percent; over half of U.S. purchases from the region are free of U.S. duty. In contrast, most U.S. products face a minimum tariff of five percent in Latin American and Caribbean markets and more typically 10 to 20 percent in the larger markets.

Open Market Growth Strategy

Outward looking trade policies are central to Latin American economic growth strategies. Largely through unilateral market openings, average tariffs in the region have fallen from 40 percent in 1990 to 11 percent today. Deregulation has helped substitute market competition for cronyism. And in response to the peso crisis, the region has introduced greater transparency and financial soundness into banking systems. These reforms have helped the region cope with the Asian flu. Commenting at the recent Summit of the Americas in Santiago, Latin American leaders regarded hemispheric integration as a kind of "mutual insurance policy" insulating the hemisphere in bad times and offering an upside in good times.

Looking Forward—Strategy for 1999

The TPCC agencies are committed to ensuring that U.S. firms are well positioned to take advantage of the emerging regional trade and investment landscape.

- **Fast Track:** To benefit from these regional dynamics and meet the challenge of our major competitors, the United States must lead the hemisphere toward greater market liberalization. Fast Track negotiating authority will be essential to concluding and implementing an FTAA that is in America's interests. The TPCC will play a key and constructive role in the Administration's efforts to obtain Fast Track Authority from the Congress.

- **Cabinet-level Visits and Missions:** An important component of our hemispheric leadership is the involvement of high-level U.S. government officials in promoting U.S.- Latin American and Caribbean partnership. In the last year and a half, Secretary Daley has embarked on five trips to Latin America visiting Argentina, Brazil, Chile, Costa Rica, Mexico, and Venezuela. In the coming year, he will continue his commitment to lead at least one Latin American trade mission annually.

- **Trade Finance:** From January 1, 1997 to July 1, 1998, the Ex-Im Bank authorized over $3 billion in U.S. export financing to Latin America and the Caribbean, including financing for over 2,500 separate shipments by small and medium-sized U.S. companies. In addition to its traditional programs, Ex-Im is pursuing an environmental financing initiative with Colombia, a finance training program for Commerce and State Department officials in the region, and targeted business development activities in the region.

- **Business Facilitation:** The Miami Summit Declaration called for "concrete progress" in the FTAA by the turn of the century, and in Santiago, trade ministers were directed to identify *specific* business facilitation measures that could be adopted by the 2000 deadline. The hemispheric business community has played an important role in highlighting such measures, particularly through the privately-organized Americas Business Fora. Recommendations with broad appeal include progress on express shipments, greater transparency in government procurement, and improvements in customs procedures.

  TPCC agencies are working in partnership with the U.S. business community to build hemispheric support for specific initiatives, including efforts to build hemispheric support for U.S. proposed measures for concrete progress on FTAA business facilitation by the year 2000.

- **Electronic Commerce:** Electronic commerce will be a major channel for trade in the free trade area that is being constructed. The Administration pushed hard for the establishment of an *FTAA Experts Committee on Electronic Commerce*, composed of private sector and government participants. The Committee will develop recommendations to trade ministers on how to make electronic commerce work for all countries in this hemisphere.

- **Small Business Initiatives:** The Small Business Administration (SBA) signed a formal agreement with Mexico's Secretaria de Comercio y Fomento Industrial (SECOFI) and Nacional Financiera (NAFIN) to assist small and medium-sized businesses in both the United States and Mexico. The agreement will promote business linkages, investment and commercial opportunities, and an exchange of information on credit, guarantee, and venture capital programs. SBA's resource partners (Small Business Development Centers, SCORE, Women's Business Centers, USEACs, and Business Information Centers), in partnership with similar organizations in Mexico, will promote business connections through trade missions, trade shows, conferences, and seminars. SBA also signed an agreement with the Ministry for Small and Medium Enterprises in Argentina (SEPYME) to encourage increased trade opportunities for U.S. and Argentine small and medium-sized enterprises.

- **Advocacy:** The Commerce Department's Advocacy Center, and the Department of Agriculture's Foreign Agricultural Service, will continue to serve as key facilitators to advance U.S. companies' interests in Latin America and the Caribbean. The Advocacy Center is proactively tracking projects throughout the Western Hemisphere valued at over $8.2 billion and representing a potential U.S. export content value of nearly $4.2 billion.

- **Improved Market Access and Enforcement of Trade Agreements:** The U.S. Government has placed renewed emphasis on day-to-day monitoring of trade agreements, as well as on reducing and eliminating market access barriers impeding U.S. exports. In particular, TPCC agencies will continue to closely monitor intellectual property rights (IPR) activities in Latin America and the Caribbean and encourage full compliance with existing WTO obligations. IPR issues figure prominently in the U.S. Information Agency's (USIA) programs in the region. USIA played a significant role in the U.S. Embassy's campaign for passage of an IPR law in Ecuador through a coordinated public diplomacy strategy. The legislation is expected to save U.S. companies as much as $50-60 million this year.

- **Developing Hemispheric Infrastructure:** The Western Hemisphere Transportation Initiative (WHTI), led by the Department of Transportation, was established as a forum for government and industry transportation officials throughout the hemisphere to cooperate in developing efficient and integrated transportation systems and services in the Americas. In particular, the WHTI aims to improve the safety, reliability, and capacity of air, sea, and surface transportation systems through harmonization of, and compliance with, international standards and practices. Following the inclusion of transportation in the 1998 Summit of the Americas agenda and in the Summit action plan, the United States plans to host a meeting of Western Hemisphere Transportation Ministers this year.

  More generally, the Overseas Private Investment Corporation (OPIC) is making it possible for U.S. companies to participate in massive infrastructure projects in the region by providing financing and political risk insurance where investment services are otherwise not commercially available. In this way, American firms are bringing state-of-the-art services to newly opening markets in areas such as power generation and telecommunications. American participation in these projects helps develop the region and stimulate U.S. exports. OPIC is providing more than $7.8 billion in political risk insurance and project financing in Latin America and the Caribbean. These projects represent 40 percent of OPIC's global portfolio.

- **Investment:** Overseas investments often lead to increased exports not only in capital equipment, but through intra-company and intra-industry trade. Local U.S. investment presence also contributes to reducing trade barriers by creating greater acceptance in foreign markets of foreign goods. The TPCC will continue to support efforts to protect U.S. investors overseas through OPIC as well as through U.S. Government negotiations in the FTAA and in bilateral investment treaties (BITs). Information on the U.S. BIT program can be found at **http://www.state.gov/www.issues/ economic/7treaty.html.**

- **Inter-Americas Center:** The Inter-Americas Center is an exciting new initiative under development at the U.S. Export Assistance Center in Miami. The purpose of the Center is to take advantage of Miami's status as a gateway to Latin America and the Caribbean, and to coordinate efforts among TPCC agencies and state and local partners. The Center will link international buyers from throughout the Western Hemisphere with appropriate U.S. business contacts. The Center will also make available an umbrella website.

- **Mexico: Our NAFTA Partner:** As Mexico continues its economic reform program, it has embarked on an ambitious privatization plan in the transportation (roads, railroads, airports and seaports), energy, and telecommunications sectors valued at approximately $43 billion. The TPCC agencies have a number of initiatives designed to maximize U.S. export opportunities in Mexico and deepen the U.S.-Mexican commercial relationship.

  – The two governments have signed a Memorandum of Intent (MOI) to enhance trade and investment in the environmental sector, including training workshops, demonstration projects, trade missions, reverse trade missions, and partnering events.

  – The Department of Commerce and the Mexican Trade and Industrial Development Agency will host the third U.S.-Mexico Border Conference aimed at stimulating private sector investment in infrastructure projects in the U.S.-Mexico border region.

  – Following up on the Business Opportunities Conference in 1996, TDA will host "Infrastructure Project Opportunities in Mexico II" this fall to highlight the top projects in the energy, transportation, environmental, telecommunications, and industrial sectors.

  – In Mexico City, the U.S. Trade Center is being renovated to accommodate electronic exhibits ('virtual trade shows') and video conferencing facilities. The Trade Center has also increased the number of events for U.S. exhibitors.

- **Focus on MERCOSUR:** We will update our BEMs initiative to reflect regional realities, and consider MERCOSUR, rather than Argentina and Brazil alone, as a BEM. With growth expected to be 3.5 percent over the next two years, the MERCOSUR market will be one of our highest BEM priorities. To maximize the opportunities in the region, TPCC agencies are developing unique programs and services to support U.S. exporters.

Patience Pays Off

Last year we reported on an Argentine airport orientation visit coordinated by TDA, the U.S. Department of Commerce, and the Federal Aviation Administration. This delegation of Argentine civil aviation officials visited American companies to learn about the technology and services that could be used in privatizing their 33 national airports. Following the visit, the U.S. company, Ogden (New York), found themselves the only U.S. firm on a short list of four consortia to win the concession. Ready to step up the competition, Ogden asked TDA to endorse the Ogden-led bid. TDA offered the Argentine government up to $1 million in technical assistance if they chose Ogden. During the earlier orientation visit, some of the ministers making the selection had already been introduced to the quality and expertise of potential American partners. Ultimately, the Ogden-led consortium won the deal worth more than $200 million in U.S. exports.

– The Commercial Service will produce regional market research, focus on regional trade events, and increase outreach to provincial localities. The Commercial Service will also open an office in Porto Alegre, Brazil and work with partner organizations in Cordoba and Mendoza, Argentina.

– The TPCC agencies will focus on opportunities for small businesses, especially in the sectors where we expect to see the fastest growth, including automotive parts, computers, electronic components, telecommunications equipment, and agriculture-related goods.

– In both Argentina and Brazil, the Department of Commerce will follow through on an initiative to review customs practices and standards requirements. In MERCOSUR, priorities include simplifying temporary import procedures and addressing standards issues through closer coordination with the National Institute of Standards and Technology. In Brazil, the initiative will consider the "nuts and bolts" of customs barriers with the Brazil-U.S. Business Council Trade Task Force.

– In Argentina, the U.S. Department of Energy will implement the Argentina Project to provide a forum for independent oil and gas companies of the United States and Argentina. Two roundtable discussions will focus on market conditions and specific business opportunities in Argentina.

– In Brazil, the U.S. Department of Commerce, through its Market Development Cooperator Program (MDCP), will continue to invest in innovative export marketing projects proposed by states, communities, and private sector industry groups. Nearly half of the 30 MDCP awards granted to date have focused on projects in Brazil.

– The Commerce Department's Trade Information Center (TIC) will work with the U.S. Commercial office in Brazil to develop a database that would offer exporters the most current information on doing business in Brazil via the Internet.

> "With its posts overseas, its electronic and print media facilities, its exchange programs and its evaluations of foreign opinion, USIA is uniquely placed to persuade and inform audiences abroad about how the U.S. push for open markets around the world will ensure growing prosperity and raise the standard of living both for Americans and their partners overseas."
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> Joseph Duffey, Director
> United States Information Agency